

SUMMARY - STATEMENT NO. 89

SUMMARIES / STATUS

SUMMARY OF STATEMENT NO. 89

ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD

(ISSUED 06/18)

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

EFFECTIVE DATE AND TRANSITION

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

HOW THE CHANGES IN THIS STATEMENT WILL IMPROVE FINANCIAL REPORTING

The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities.

HOW THE BOARD CONSIDERED COSTS AND BENEFITS IN THE DEVELOPMENT OF THIS STATEMENT

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall

public benefit. The Board believes that the expected benefits that will result from the information provided through implementation of this Statement—more relevant and comparable information about capital assets and the cost of borrowing for a reporting period as well as reduced complexity of the accounting requirements—outweigh potential initial and ongoing costs. In addition, the Board believes that the costs of applying the requirements generally will be less than the costs of applying current requirements for capitalization of interest cost. To further reduce the cost of implementation of the provisions, this Statement requires that the provisions be applied prospectively.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.